

## Message Text

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ACTION XMB-04

INFO OCT-01 ARA-06 ISO-00 EB-07 AID-05 CIAE-00 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 OPIC-03 SP-02 CIEP-01

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 6737

INFO USDOC

LIMITED OFFICIAL USE BUENOS AIRES 5337

PASS EXIMBANK

E.O. 11652: N/A

TAGS: BEXP, EFIN

SUBJECT: EXPORT-IMPORT BANK LENDING OPERATIONS IN ARGENTINA

1. AS EXIM NO DOUBT AWARE, IMF DIRECTORS HAVE RECENTLY APPROVED  
STANDBY AGREEMENT FOR ARGENTINA. GOA EXPECTED TO SIGN THIS WEEK.  
THIS ACTION WILL TRIGGER APPROVAL BY US AND EUROPEAN COMMERCIAL  
BANKS OF LOANS TALLING APPROXIMATELY \$800 MILLION LINED UP BY  
MINISTER OF ECONOMY MARTINEZ DE HOZ DURING HIS RECENT TRIPS,  
THEREBY ENABLING ARGENTINA TO RESCHEDULE ITS DEBT. FUND AND  
COMMERCIAL BANKS' COMMITMENT TO ASSIST ARGENTINA IS KEY SIGN-  
POST IN DEMONSTRATION OF A HIGH LEVEL OF CONFIDENCE IN ARGENTINA'S  
RECOVERY PROGRAM AND ITS PRIME MOVER, DR. MARTINEZ DE HOZ. HIS  
POSITION DOMESTICALLY HAS BEEN IN TURN VERY MUCH STRENGTHENED BY  
SUCCESS IN THIS AND OTHER ASPECTS OF THE JUNTA'S ECONOMIC PROGRAM.

2. THIS PROGRAM, FIRMLY IMPLEMENTED SO FAR BY THE JUNTA'S  
ECONOMIC TEAM, CALLS FOR A COMPLETE REORIENTATION OF POLICY  
TOWARDS A FREE, EXPORT-ORIENTED MARKET ECONOMY AND INCLUDES  
FREEING OF PRICES WITH TEMPORARY STATE RESTRAINTS ON  
WAGES, STIMULATION OF AGRICULTURAL EXPORTS AND A FREE EXCHANGE  
RATE. THESE POLICIES, WHICH DRAMATICALLY REVERSE THE TREND OF THE  
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PAST THIRTY YEARS, ARE NOT ONLY BEING IMPLEMENTED BUT ARE BEING  
SUCCESSFUL. ALTHOUGH MUCH REMAINS TO BE DONE, MARTINEZ DE HOZ'

TEAM HAS REDUCED THE RATE OF INFLATION FROM 38 PERCENT PER MONTH IN MARCH TO 4.2 PERCENT IN JULY BY DRASTICALLY HOLDING BACK REAL WAGES THROUGHOUT THE ECONOMY, WHILE AVOIDING SIGNIFICANT INCREASES IN UNEMPLOYMENT. CENTRAL BANK FINANCING OF THE DEFICIT AND THE DEFICIT ITSELF HAVE DROPPED SUBSTANTIALLY. (IN THE SECOND QUARTER OF 1976 IT IS ESTIMATED THAT THE PART OF THE DEFICIT FINANCED BY OTHER THAN PUBLIC BORROWING DECLINED TO 3 PERCENT OF GDP, AS COMPARED TO 13 PERCENT FOR THE FIRST QUARTER). WHEATPLANTING ESTIMATES INDICATE THAT THE FARMERS ARE RESPONDING TO THE PRICE INCENTIVES THE GOA IS NOW OFFERING, AND WEATHER PERMITTING, THERE WILL BE A BUMPER WHEAT HARVEST IN A FEW MONTHS. PRICES ON ALL BUT MEDICINES, RENTS AND PUBLIC TRANSPORT HAVE BEEN OFFICIALLY DECONTROLLED, (ALTHOUGH IN FACT, BY A COMBINATION OF JAWBONING AND THREAT OF ADMINISTRATIVE PENALTIES, THE GOA HAS KEPT A FIRM LID ON SPECULATIVE AND "UNJUSTIFIED" PRICE RISES). THE GOVERNMENT IS MOVING IN SUCCESSIVE STEPS TOWARDS A UNIFIED AND FREE EXCHANGE RATE. FINALLY, OVER THE PAST FIVE MONTHS ARGENTINA'S GROSS RESERVES HAVE INCREASED FROM \$556 MILLION TO \$1.4 BILLION.

3. PROJECT LIST REQUESTED BY EXIM OF MARTINEZ DE HOZ IS BEING DRAWN UP BY GOA, AND EMBASSY WILL BE FORWARDING COPY VIA POUCH. PRESUME COPY WILL ALSO BE SUBMITTED TO EXIM VIA ARGENTINE EMBASSY IN WASHINGTON.

4. CENTRAL BANK CIRCULAR 524 GOVERNING FINANCING TERMS REQUIRED OF ARGENTINE IMPORTERS AND OBJECTED TO BY EXIMBANK AND OTHER BERNE UNION MEMBERS HAS BEEN DEROGATED AND REPLACED BY CIRCULAR 641, (SEE BA 4636), WHICH REQUIRED TERMS SIMILAR TO THOSE IN FORCE PRIOR TO 524.

5. BELIEVE, THEREFORE, MOMENT IS APPROPRIATE AND PROPITIOUS FOR EXIM TO SERIOUSLY CONSIDER RESUMPTION OPERATIONS IN ARGENTINA. WE ARE CONCERNED THAT OUR COMMERCIAL COMPETITORS IN NEXT FEW WEEKS REENTER MARKET IN FORCE WITH EXPORT FINANCING AND IF WE DELAY WE WILL ENABLE THEM TO CUT INTO US MARKET SHARE.

6. WE UNDERSTAND BANK OFFICERS PLAN VISIT TO ARGENTINA SOON. EMBASSY WELCOMES THIS VISIT, AND HOPE WE MAY ASSIST IN SCHEDULING. SEE NO PROBLEMS IN SECURITY SENSE, PARTICULARLY IF NEWS OF LIMITED OFFICIAL USE  
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VISIT HELD CLOSELY UNTIL SHORTLY BEFORE EVENT AND PUBLICITY AVOIDED. RECOMMEND VISIT BE UNDERTAKEN ASAP, IF POSSIBLE IN LATE AUGUST OR EARLY SEPTEMBER FOR REASONS OUTLINED IN PARA 5, PARTICULARLY IF DECISION TO RESUME OPERATIONS IS TO AWAIT COMPLETION OF VISIT. IF EARLY VISIT NOT FEASIBLE, PERHAPS EXPORTER CREDIT PROGRAMS AT LEAST COULD BE RESUMED PRIOR TO VISIT.  
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**Capture Date:** 01 JAN 1994  
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